

June 18, 2018

TO: Members, Subcommittee on Energy

FROM: Committee Majority Staff

RE: Hearing entitled “The Benefits of Tax Reform on the Energy Sector and Consumers”

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## INTRODUCTION

The Subcommittee on Energy will hold a hearing on Wednesday, June 20, 2018, at 10:00 a.m. in 2123 Rayburn House Office Building. The hearing is entitled “The Benefits of Tax Reform on the Energy Sector and Consumers.” This hearing will explore the economic impacts of the Tax Cuts and Jobs Act of 2017, particularly on small businesses, consumers, and the energy sector.

## WITNESSES

- **Holly Wade**, Director, Research & Policy Analysis, National Federation of Independent Business;
- **Tom Ferguson**, Chief Executive Officer, AZZ, Inc.;
- **Sam McCammon**, President, Anamet Electrical, Inc.; and,
- **Seth Hanlon**, Senior Fellow, Center for American Progress.

## BACKGROUND

On December 20, 2017, the U.S. House of Representatives and the U.S. Senate passed the Tax Cuts and Jobs Act of 2017 (the Act), which was signed into law on December 22, 2017.<sup>1</sup> This was the most comprehensive tax rewrite since 1986, under the Reagan Administration.

Following the passage of the Tax Cuts and Jobs Act of 2017, the Congressional Budget Office (CBO) released one of its annual reports on projections of economic and budget outcomes, which incorporate current laws and covers a 10-year period.<sup>2</sup> CBO noted several recently enacted bills have shaped the economic outlook in significant ways, with the largest

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<sup>1</sup> Tax Cuts and Jobs Act of 2017, H.R. 1, 113<sup>th</sup> Congress § 1 (2017). <https://www.congress.gov/115/bills/hr1/BILLS-115hr1enr.pdf>

<sup>2</sup> Note: CBO regularly publishes budget projections and economic forecast annually and are generally issued each January and updated in August; the budget projections are also generally updated each March. The CBO report for 2018 was published in April to give CBO time to analyze and incorporate some of the effects of recent legislation, particularly the Tax Cuts and Jobs Act of 2017 and the Bipartisan Budget Act of 2018.

effects on GDP stemming from the Tax Cuts and Jobs Act of 2017.<sup>3</sup> During the first quarter of 2018, real gross domestic product (GDP) increased at an annual rate of 2.2 percent, according to the U.S. Department of Commerce.<sup>4</sup> CBO anticipates real GDP will expand by 3.3 percent in 2018 and 2.4 percent in 2019.<sup>5</sup> CBO also projects the Act will raise the level of real gross national product (GNP) by an annual average of about \$470 per person in 2018 dollars.<sup>6</sup>

Business expansion and reports of positive earnings trends are hitting record highs, while expectations for strong increases in real sales reached their highest since 1995.<sup>7</sup> A recent survey by the National Federation of Independent Business Research Center indicated 75 percent of small business owners believe the tax law will positively impact their business, 22 percent anticipate it will have no impact, and 3 percent anticipate a negative impact.<sup>8</sup> According to NFIB, the small business optimism index rose three points to 107.8 in May, the second-highest level in the index's 45-year history.<sup>9</sup> The small business optimism index's reading of 107.8 in May marked an increase of three points from April and the second-highest level in the index's 45-year history. The record high for the index was in 1983 at 108.0.<sup>10</sup>

United States' employers are increasingly hiring new employees.<sup>11</sup> According to the Labor Department's monthly employment report, the U.S. economy added 223,000 jobs in May 2018.<sup>12</sup> This report also indicates the unemployment rate has fallen to 3.8 percent, and the number of persons unemployed declined to 6.1 million, the lowest since 2000.<sup>13</sup> According to CBO's projections, the act will boost nonfarm payroll employment by an average of 0.9 million jobs over the 2018-2028 period.<sup>14</sup> The recent tax reform law allows many companies the opportunity to invest available capital from lower taxes into their existing workforce through salary increases and bonuses. CBO estimates that the Act will grow wages by \$1.2 trillion over the next decade.<sup>15</sup>

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<sup>3</sup> U.S. Congressional Budget Office, *The Budget and Economic Outlook: 2018-2028*, April 2018.

<https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf>

<sup>4</sup> U.S. Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts, Gross Domestic Product: First Quarter 2018 (Advance Estimate)*, (May 30, 2018).

[https://www.bea.gov/newsreleases/national/gdp/2018/gdp1q18\\_2nd.htm](https://www.bea.gov/newsreleases/national/gdp/2018/gdp1q18_2nd.htm)

<sup>5</sup> U.S. Congressional Budget Office, *The Budget and Economic Outlook: 2018-2028*, April 2018.

<https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf>

<sup>6</sup> *Id.*

<sup>7</sup> CNBC, *Small Business Optimism Jumps to Second-Highest Level Ever; Tax Cut Cited*, (June 12, 2018).

<https://www.cnbc.com/2018/06/12/small-business-optimism-jumps-to-second-highest-ever-tax-cut-cited.html>

<sup>8</sup> National Federation of Independent Business Research Center, *Small Business Introduction to the Tax Cuts and Jobs Act: Part 1*, (May 2018). <https://www.nfib.com/assets/TCJA-Survey.pdf>

<sup>9</sup> CNBC, *Small Business Optimism Jumps to Second-Highest Level Ever; Tax Cut Cited*, (June 12, 2018).

<https://www.cnbc.com/2018/06/12/small-business-optimism-jumps-to-second-highest-ever-tax-cut-cited.html>

<sup>10</sup> National Federation of Independent Business Research Center, *Small Business Introduction to the Tax Cuts and Jobs Act: Part 1*, (May 2018). <https://www.nfib.com/assets/TCJA-Survey.pdf>

<sup>11</sup> Washington Post, *U.S. economy extends its hiring spree, with a better than expected 223,000 new jobs in May*, (June 1, 2018). [https://www.washingtonpost.com/news/wonk/wp/2018/06/01/u-s-economy-continues-its-hiring-spreed-and-is-projected-to-add-200000-jobs-in-may/?utm\\_term=.dc7fa813b881](https://www.washingtonpost.com/news/wonk/wp/2018/06/01/u-s-economy-continues-its-hiring-spreed-and-is-projected-to-add-200000-jobs-in-may/?utm_term=.dc7fa813b881)

<sup>12</sup> U.S. Bureau of Labor Statistics, U.S. Department of Labor, USDL-18-0916, *The Employment Situation – May 2018*, (June 1, 2018). <https://www.bls.gov/news.release/pdf/empst.pdf>

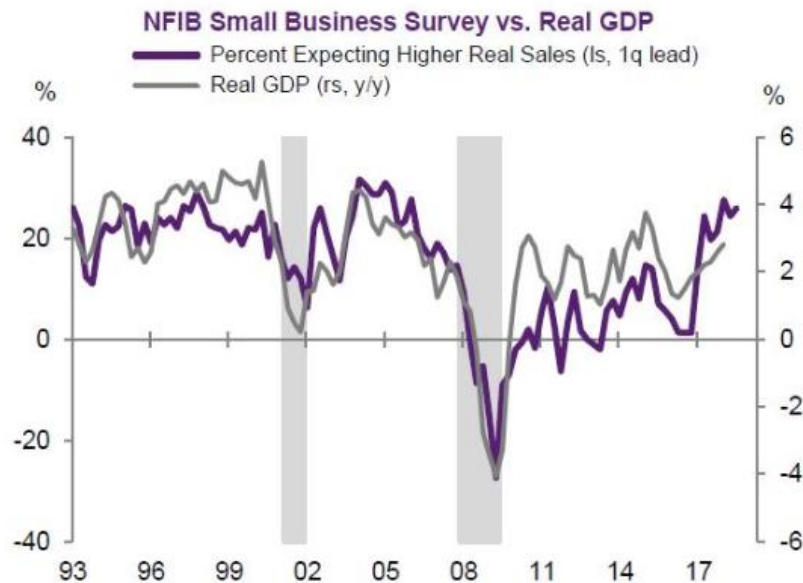
<sup>13</sup> *Id.*

<sup>14</sup> U.S. Congressional Budget Office, *The Budget and Economic Outlook: 2018-2028*, April 2018.

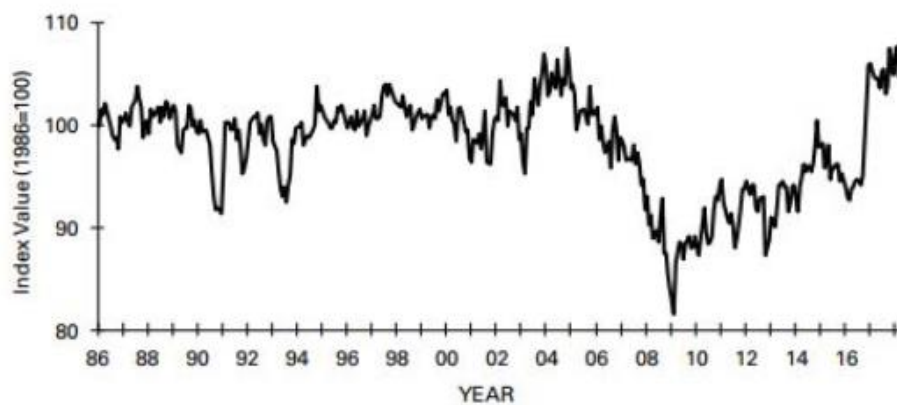
<https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf>

<sup>15</sup> *Id.*

Since the passage of the Tax Cuts and Jobs Act of 2017, at least 102 utilities across the United States have lowered rates for customers.<sup>16</sup> For many utilities, the capital saved from the lower corporate tax rate allowed them to pass these savings on to their customers. These decreases in utility rates mean American consumers are paying less for electricity, gas, and water services.



Small business optimism index (1986-2018)



Source: National Federation of Independent Business. Data collected on a monthly basis since 1986, quarterly since 1973.

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<sup>16</sup>Americans for Tax Reform, *Thanks to GOP Tax Cuts, Utilities are Lowering Rates*, (June 7, 2018). <https://www.atr.org/thanks-tax-reform-utilities-are-lowering-rates?amp>

## **ISSUES**

The following issues may be examined at the hearing:

- The economic and employment benefits of the Tax Cuts and Jobs Act of 2017 on the energy sector, the U.S. economy, and consumers.
- Increased investment in the U.S. following tax reform.
- Positive impacts of tax reform on small businesses.

## **STAFF CONTACTS**

If you have any questions regarding this hearing, please contact Annelise Rickert, Brandon Mooney, or Mary Martin of the Committee staff at (202) 225-2927.